

June 13, 2003

IN RE: DOCKET NO. 2002-416-C – Proceeding for the establishment of a requirement that non-facilities based CLEC's providing prepaid local telephone service be required to post an appropriate Surety Bond.

COPY OF REPLY TESTIMONY OF RONALD K. NESMITH ON BEHALF OF FARMERS TELEPHONE COOPERATIVE, INC. HAS BEEN DISTRIBUTED TO THE FOLLOWING:

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**SOUTH CAROLINA TELEPHONE COALITION
REPLY TESTIMONY OF RONALD K. NESMITH**

BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

DOCKET NO. 2002-0416-C

Q: Please state your name, place of employment, and business address.

A: My name is Ronald K. Nesmith. I am the Controller for Farmers Telephone Cooperative, Inc. ("FTC"). My business address is Post Office Box 588, 1101 East Main Street, Kingstree, South Carolina 29556.

Q: Have you previously filed testimony in this docket?

A: Yes. I filed direct testimony in this docket on behalf of the South Carolina Telephone Coalition ("SCTC") on June 4, 2003.

Q: What is the purpose of your testimony?

A: The purpose of my testimony is to reply, on behalf of the South Carolina Telephone Coalition, to some of the points raised in Donald L. Aldridge's testimony, which was filed on behalf of the National ALEC Association ("NALA") on June 4, 2003.

Q: Mr. Aldridge states in his testimony that there is a "big difference" in billing between NALA members and ILECs.

A: No, it is not. There is a big difference between a carrier who bills in advance for fixed recurring monthly local service only, and an ILEC whose service typically includes directory assistance and unrestricted toll access. However, even if there were no difference in billing, Mr. Aldridge seems to be missing the point. He states on page 2 of his testimony that "NALA members incur all of the risks common to LECs and CLECs."

RETURN DATE: OK DW
SERVICE: OK DW

1 To the contrary, the real differences between NALA members and ILECs are that (1)
2 ILECs are required to provide service to resellers; and (2) ILECs have infrastructure,
3 employees, and assets located in South Carolina. While some NALA members may have
4 assets in the state, there is no requirement for a non-facilities-based prepaid local service
5 provider to have or to keep any assets in South Carolina. Thus, an ILEC incurs the
6 additional risk that a non-facilities-based prepaid reseller -- whom the ILEC is required by
7 law to serve -- will be unable to pay its bills, and the ILEC may have no way to recover
8 that indebtedness.

9 **Q: Mr. Aldridge notes on page 2 of his testimony that many of the customers who are**
10 **served by NALA members are “unable” to obtain telephone service from the ILEC.**
11 **Can you comment on that?**

12 **A:** Yes. In FTC’s case, this does not appear to be true. The customers that we see signing
13 up with prepaid resellers have typically been those who have outstanding bills with FTC.
14 When a customer is unable to pay an outstanding bill, FTC’s credit department works
15 with the customer to try to ensure continued local service, reduce the customer’s debt
16 burden, and restore creditworthiness. In some cases, the customer may prefer instead to
17 discontinue his or her service with FTC and sign up with a prepaid reseller, despite the
18 fact that he or she could continue service with FTC if desired. In other cases, new
19 customers who do not have an established credit history may be asked to pay a deposit to
20 FTC before receiving service that includes unrestricted toll calling. If they cannot or do
21 not wish to pay a deposit, FTC offers prepaid local service with restricted toll calling and
22 no deposit. These customers may choose to be served by a prepaid reseller, despite the
23 fact that they could get essentially the same service from FTC. Therefore, I do not agree

1 that NALA members' customers are "unable" to receive service from the ILEC or that
 2 the service these customers receive from the NALA member is their "only option," as
 3 Mr. Aldridge states.

4 **Q: Mr. Aldridge suggests that, if a prepaid reseller is unable or unwilling to continue to**
 5 **serve its customers, "the underlying carrier itself may offer to serve as an**
 6 **alternative provider of service to the end user." Mr. Aldridge goes on to say that, in**
 7 **some states, BellSouth has been "required or requested" to file an Emergency**
 8 **Continuation Tariff. Do you have any comments about that?**

9 **A:** Yes. While a carrier such as BellSouth may choose to continue service on an emergency
 10 basis, ILECs should not be required to continue service to another carrier's customers if
 11 that carrier ceases providing service without making appropriate provisions for continued
 12 service to its customers. As discussed above, many prepaid resellers' customers already
 13 owe debts to the underlying ILEC and the ILEC, in many cases, has worked with such
 14 customers to try to establish a repayment plan, to no avail. In addition, in many areas of
 15 the state there may be other carriers (besides the ILEC) available to serve the customer as
 16 well. It is not appropriate to require the ILEC to serve another carrier's customers if that
 17 carrier is unable or unwilling to do so.

18 **Q: Mr. Aldridge states that a bond should not be required, and that BellSouth's**
 19 **standard interconnection agreement requires resellers to provide a deposit that**
 20 **provides adequate assurance to BellSouth. Do you have any comment with respect**
 21 **to this?**

22 **A:** Yes. Like BellSouth, FTC has a deposit requirement in its resale agreements. Other
 23 SCTC members may either have similar requirements in their resale agreements, or may

1 rely instead on existing Commission rules and practices with respect to customer
2 deposits. In FTC's case, we have had trouble in the past obtaining adequate assurance
3 from a prepaid reseller pursuant to the deposit requirement, because the deposit amount
4 must be re-calculated and collected on a regular basis (as the number of end user
5 customers subscribing to the reseller's service changes) to ensure its sufficiency. An
6 ILEC may have difficulty collecting additional deposit amounts for the same reason that
7 the deposit is needed in the first place, i.e., financial problems or mismanagement on the
8 part of the reseller. In any case, SCTC's position is that the ILEC should have a way to
9 recover the indebtedness that a non-facilities-based prepaid local reseller may incur,
10 whether it be through existing rules and practices, through deposit provisions in
11 interconnection agreements, or through the posting of a bond. Without any requirement
12 to maintain assets in the state, there is no way for the ILEC to collect on any judgment it
13 may obtain with respect to amounts owed. SCTC has proposed a bond requirement
14 because indebtedness can occur even with a deposit requirement. In addition, deposits
15 may be administratively difficult to keep up with.

16 **Q: Does this conclude your testimony?**

17 **A: Yes.**